Nkandla Municipality
Financial statements
for the year ended 30 June 2014

General Information

Mayoral committee	
Executive Mayor	His Worship - The Mayor Cllr AT Ntuli
Councillors	Deputy Mayor Cllr TO Ndhlela
	Speaker Cllr NFJ Nzuza
	Exco member Cllr SO Sibiya
	Exco member Cllr BZ Mncadi-Mpanza
	Exco member Cllr BW Sibiya
	Cllr SA Majola
	Cllr BB Ndima
	Cllr SB Manyathi
	Cllr BV Khanyile
	Cllr BN Buthelezi
	Cllr MBE Ntombela
	Cllr BB Dlomo
	Cllr SM Bhengu
	Cllr NPN Magubane
	Cllr S Buthelezi
	Cllr JB Ntuli
	Cllr L Ntombela
	Cllr SE Mhlongo
	Cllr TT Dlamini
	Cllr NR Xulu
	Cllr FK Magubane
	Cllr HR Ntombela
	Cllr PR Dlamini
	Cllr CM Mthalane
	Cllr SV Lushozi
	Cllr TF Nxumalo
Grading of local authority	2
Accounting Officer	Mr SB Mthembu
Chief Finance Officer (CFO)	Mr P.P Sibiya
Registered office	Private Bag x 161 Nkandla 3855
Business address	Maree Road, Lot 292 Nkandla 3855

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance in accordance with this Act.

The annual financial statements set out on pages 4 to 46, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Mr SB Mthembu
Accounting Officer

29 August 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
Assets			
Current Assets			
Inventories	3	91 423	-
Receivables from exchange transactions	4	1 065 824	700 298
VAT receivable	5	1 225 774	2 857 981
Consumer debtors	6	10 619 143	6 610 339
Cash and cash equivalents	7	1 319 198	47 091 484
		14 321 362	**57 260 102**
Non-Current Assets			
Investment property	8	5 895 722	6 118 583
Property, plant and equipment	9	303 447 449	257 393 672
Intangible assets	10	504 587	462 441
		309 847 758	**263 974 696**
Non-current assets held for sale	12	908 000	-
Total Assets		**325 077 120**	**321 234 798**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	12 230 642	14 914 826
Unspent conditional grants and receipts	13	4 436 386	14 277 786
Provisions	14	1 777 411	1 599 208
		18 444 439	**30 791 820**
Non-Current Liabilities			
Provisions	14	4 432 934	4 158 475
Total Liabilities		**22 877 373**	**34 950 295**
Net Assets		**302 199 747**	**286 284 503**
Accumulated surplus		302 199 747	286 284 503

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Service charges	16	11 402 689	7 192 797
Rental of facilities and equipment	17	838 424	1 238 850
Interest on arrear consumer debtors		1 789 643	1 301 446
Proceeds from disposal of assets		-	485 870
Other income	19	1 526 331	313 093
Interest received - investment	18	1 288 493	1 587 603
Property rates	21	6 911 663	1 667 159
Government grants & subsidies	20	83 592 320	94 218 389
Total revenue		**107 349 563**	**108 005 207**
Expenditure			
Employee costs	22	(24 053 976)	(13 970 301)
Remuneration of councillors	23	(6 731 321)	(5 445 100)
Bulk purchases	24	(8 073 041)	(8 030 526)
Contracted services	25	(4 552 435)	(2 840 497)
Debt impairment	26	(2 341 372)	(2 283 146)
Depreciation and amortisation	27	(5 143 584)	(4 532 562)
General Expenses	28	(32 190 196)	(25 333 784)
Grant expenditure	30	(2 022 010)	(287 428)
Repairs and maintenance		(6 034 187)	(2 750 824)
Loss on disposal of assets	29	(262 754)	-
Total expenditure		**(91 404 876)**	**(65 474 168)**
Surplus for the year		**15 944 687**	**42 531 039**

Nkandla Municipality
Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2012	**226 131 413**	**226 131 413**
Changes in net assets		
Correction of error	7 482 167	7 482 167
Net income (losses) recognised directly in net assets	7 482 167	7 482 167
Surplus for the year	42 531 039	42 531 039
Total recognised income and expenses for the year	50 013 206	50 013 206
Prior period VAT adjustment (refer to note 35)	(3 511 709)	(3 511 709)
Prior period grant adjustment (refer to note 35)	13 651 593	13 651 593
Total changes	60 153 090	60 153 090
Balance at 01 July 2013	**286 284 503**	**286 284 503**
Changes in net assets		
Surplus for the year	15 944 687	15 944 687
Adjustment for errors in creditors	423 417	423 417
Change in accounting estimate	(452 860)	(452 860)
Total changes	15 915 244	15 915 244
Balance at 30 June 2014	**302 199 747**	**302 199 747**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Sale of goods and services		19 152 776	10 098 806
Grants		83 592 320	94 218 389
Interest income		3 078 136	1 587 603
Other receipts		1 526 331	2 100 409
		107 349 563	108 005 207
Payments			
Suppliers and employee costs		(101 736 767)	(61 377 109)
Net cash flows from operating activities	32	**5 612 796**	**46 628 098**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(52 460 802)	(45 596 743)
Proceeds from sale of property, plant and equipment	9	-	230 500
Proceeds from sale of investment property	8	-	20 000
Purchase of other intangible assets	10	(179 458)	(43 154)
Proceeds from disposal of sale of land		1 255 178	-
			-
Net cash flows from investing activities		**(51 385 082)**	**(45 389 397)**
Net increase/(decrease) in cash and cash equivalents		**(45 772 286)**	**1 238 701**
Cash and cash equivalents at the beginning of the year		47 091 484	45 852 783
Cash and cash equivalents at the end of the year	7	**1 319 198**	**47 091 484**

Nkandla Municipality
Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	12 961 000	30 000	**12 991 000**	11 402 689	**(1 588 311)**	
Rental of facilities and equipment	411 039	(186 664)	**224 375**	838 424	**614 049**	
Interest on services rendered	1 382 060	6 000	**1 388 060**	1 789 643	**401 583**	
Other income	18 878 221	395 000	**19 273 221**	1 526 331	**(17 746 890)**	
Government grants	63 127 000	(2 833 000)	**60 294 000**	-	**(60 294 000)**	
Interest received - investment	1 382 060	6 000	**1 388 060**	1 288 493	**(99 567)**	
Total revenue from exchange transactions	**98 141 380**	**(2 582 664)**	**95 558 716**	**16 845 580**	**(78 713 136)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	5 112 211	(500 000)	**4 612 211**	6 911 663	**2 299 452**	
Government grants & subsidies	-	-	**-**	83 592 320	**83 592 320**	
Total revenue from non-exchange transactions	**5 112 211**	**(500 000)**	**4 612 211**	**90 503 983**	**85 891 772**	
Total revenue	**103 253 591**	**(3 082 664)**	**100 170 927**	**107 349 563**	**7 178 636**	
Expenditure						
Employee costs	(27 228 445)	2 464 326	**(24 764 119)**	(24 053 976)	**710 143**	
Remuneration of councillors	(6 765 174)	(97 200)	**(6 862 374)**	(6 731 321)	**131 053**	
Depreciation and amortisation	(2 332 000)	-	**(2 332 000)**	(5 143 584)	**(2 811 584)**	
Finance costs	(76 939)	-	**(76 939)**	-	**76 939**	
Debt impairment	-	-	**-**	(2 341 372)	**(2 341 372)**	
Repairs and maintenance	(5 464 533)	(5 858 417)	**(11 322 950)**	(6 034 187)	**5 288 763**	
Bulk purchases	(11 580 000)	-	**(11 580 000)**	(8 073 041)	**3 506 959**	
Contracted Services	(5 972 309)	(162 956)	**(6 135 265)**	(4 552 435)	**1 582 830**	
Grants and subsidies paid	-	-	**-**	(2 022 010)	**(2 022 010)**	
General Expenses	(82 839 467)	58 417	**(82 781 050)**	(32 190 196)	**50 590 854**	
Total expenditure	**(142 258 867)**	**(3 595 830)**	**(145 854 697)**	**(91 142 122)**	**54 712 575**	
Operating surplus	**(39 005 276)**	**(6 678 494)**	**(45 683 770)**	**16 207 441**	**61 891 211**	
Loss on disposal of assets and liabilities	(6 000 000)	-	**(6 000 000)**	(262 754)	**5 737 246**	
Surplus before taxation	**(45 005 276)**	**(6 678 494)**	**(51 683 770)**	**15 944 687**	**67 628 457**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(45 005 276)**	**(6 678 494)**	**(51 683 770)**	**15 944 687**	**67 628 457**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	91 423	**91 423**	
Receivables from exchange transactions	106 445 000	-	**106 445 000**	1 065 824	**(105 379 176)**	
VAT receivable	-	-	**-**	1 225 774	**1 225 774**	
Consumer debtors	6 576 000	-	**6 576 000**	10 619 143	**4 043 143**	
Cash and cash equivalents	48 420 538	-	**48 420 538**	1 319 198	**(47 101 340)**	
	161 441 538	**-**	**161 441 538**	**14 321 362**	**(147 120 176)**	
Non-Current Assets						
Investment property	-	-	**-**	5 895 722	**5 895 722**	
Property, plant and equipment	78 959 283	-	**78 959 283**	303 447 449	**224 488 166**	
Intangible assets	-	-	**-**	504 587	**504 587**	
	78 959 283	**-**	**78 959 283**	**309 847 758**	**230 888 475**	
Non-current assets held for sale and assets of disposal groups	-	-	**-**	908 000	**908 000**	
Total Assets	**240 400 821**	**-**	**240 400 821**	**325 077 120**	**84 676 299**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	-	-	**-**	12 230 642	**12 230 642**	
Consumer deposits	1 251 000	-	**1 251 000**	-	**(1 251 000)**	
Unspent conditional grants and receipts	-	-	**-**	4 436 386	**4 436 386**	
Provisions	105 600	400	**106 000**	1 777 411	**1 671 411**	
	1 356 600	**400**	**1 357 000**	**18 444 439**	**17 087 439**	
Non-Current Liabilities						
Provisions	-	-	**-**	4 432 934	**4 432 934**	
Total Liabilities	**1 356 600**	**400**	**1 357 000**	**22 877 373**	**21 520 373**	
Net Assets	**239 044 221**	**(400)**	**239 043 821**	**302 199 747**	**63 155 926**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	239 044 221	(400)	**239 043 821**	302 199 747	**63 155 926**	

Accounting Policies

1. Presentation of Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provision for landfill site
The entity has an obligation to rehabilitate its landfill site in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value to represent the time value of money.

Other provisions
The municipality's other provisions consist of a provision for leave pay and a provision for long service award. Provisions are measured as the present value of the estimated future outflows required to settle the obligation.

Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

1.4 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value using the straight line method over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Accounting Policies

1.5 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Infrastructure	
• Roads and paving	30
• Pedestrian malls	30
• Electricity	20-80
Community	
• Buildings	30
• Recreational facilities	20-30
• Security	5
Other	
• Buildings	30
• Other vehicles	5
• Office equipment	3 - 7
• Furniture and fittings	7-10
• Bins and containers	5
• Other items of plant and equipment	2-5
• Landfill sites	15

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

1.6 Intangible assets (continued)

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intangible assets consist of computer software.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or

1.7 Financial instruments (continued)

- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.7 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Policies relating to specific financial instruments

Investments at amortised cost
Investments, which include fixed deposits and short-term deposits invested in registered commercial banks are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Investments at cost
Investments at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

Cash and cash equivalents
Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables
Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables
Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Inventory comprises of general stores.

1.10 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Accounting Policies

1.10 Non-current assets held for sale (continued)

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

1.12 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Specific exchange revenue sources

Service charges relating to electricity are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly based.

Rental income arising on investment properties, facilities and equipment is accounted for on a straight-line basis over the lease terms on ongoing leases.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

1.13 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

1.13 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

VAT

The municipality accounts for Value Added Tax on the payments basis.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Accounting Policies

1.18 Irregular expenditure (continued)

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 25: Employee benefits	01 April 2013
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013
• GRAP 12 (as revised 2012): Inventories	01 April 2013
• GRAP 13 (as revised 2012): Leases	01 April 2013
• GRAP 16 (as revised 2012): Investment Property	01 April 2013
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013
• IGRAP16: Intangible assets website costs	01 April 2013
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2016
• GRAP 105: Transfers of functions between entities under common control	01 April 2014
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014
• GRAP 107: Mergers	01 April 2014
• GRAP 20: Related parties	01 April 2014
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015
• GRAP108: Statutory Receivables	01 April 2015
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

Notes to the Financial Statements

Figures in Rand	2014	2013

3. Inventories

General stores	169 754	-
	169 754	-
Inventories (write-downs)	(78 331)	-
	91 423	**-**

4. Receivables from exchange transactions

Deposits	15 562	-
Sundry debtors	1 050 262	700 298
	1 065 824	**700 298**

5. VAT receivable

VAT	1 225 774	2 857 981

6. Consumer debtors

Gross balances		
Rates	6 705 468	2 901 961
Electricity	9 788 320	7 741 158
Sundry	1 491 849	2 175 085
Refuse	3 980 665	3 398 783
Other	1 025 678	424 818
	22 991 980	**16 641 805**
Less: Allowance for impairment		
Rates	(4 130 340)	(1 776 897)
Electricity	(4 141 677)	(4 844 162)
Sundry	(935 746)	(866 181)
Refuse	(2 602 685)	(2 214 472)
Other	(562 389)	(329 754)
	(12 372 837)	**(10 031 466)**
Net balance		
Rates	2 575 128	1 125 064
Electricity	5 646 643	2 896 996
Sundry	556 103	1 308 904
Refuse	1 377 980	1 184 311
Other	463 289	95 064
	10 619 143	**6 610 339**
Rates		
Current (0 -30 days)	370 656	121 810
31 - 60 days	258 601	121 514
61 - 90 days	175 726	120 213
> 90 days	1 770 145	761 527
	2 575 128	**1 125 064**

Notes to the Financial Statements

Figures in Rand	2014	2013

6. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	1 878 426	491 978
31 - 60 days	1 583 796	354 250
61 - 90 days	409 416	222 380
> 90 days	1 775 005	1 828 388
	5 646 643	**2 896 996**

Sundry		
Current (0 -30 days)	51 769	1 190 569
31 - 60 days	51 769	59 907
61 - 90 days	51 531	58 428
91 - 120 days	401 034	-
	556 103	**1 308 904**

Refuse		
Current (0 -30 days)	88 649	79 249
31 - 60 days	87 960	78 622
61 - 90 days	85 934	77 381
91 - 120 days	1 115 437	949 059
	1 377 980	**1 184 311**

Other		
Current (0 -30 days)	75 746	33 163
31 - 60 days	75 055	31 738
61 - 90 days	71 464	30 163
91 - 120 days	241 024	-
	463 289	**95 064**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(10 031 466)	(7 748 319)
Contributions to allowance	(2 341 371)	(2 283 147)
	(12 372 837)	**(10 031 466)**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	-	6
Bank and cash	1 319 198	47 091 478
	1 319 198	**47 091 484**

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA - Primary Bank Account - 4053858355	937 988	908 065	2 635 425	(512 632)	908 065	2 635 425
ABSA - Call Account - 9104679851	1 749 718	21 784 164	15 395 483	1 749 718	21 784 164	15 395 483
ABSA - MIG Call Account - 9108997407	33 957	9 453 639	1	33 958	9 453 639	1
ABSA - Conditional Call Account - 9132397071	41 914	14 945 610	27 821 874	41 914	14 945 610	27 821 874
ABSA - DOE Call Account - 9287118576	1 040	-	-	1 040	-	-
ABSA - EPWP Call Account - 9287118801	1 040	-	-	1 040	-	-
ABSA - FMG Call Account - 9287118110	1 040	-	-	1 040	-	-
ABSA - Investment Account - 9287138394	1 040	-	-	1 040	-	-
ABSA - MIG Call Account - 9287118398	1 040	-	-	1 040	-	-
ABSA - MSIG Call Account - 9287117928	1 040	-	-	1 040	-	-
Total	**2 769 817**	**47 091 478**	**45 852 783**	**1 319 198**	**47 091 478**	**45 852 783**

8. Investment property

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	6 955 451	(1 059 729)	5 895 722	6 955 451	(836 868)	6 118 583

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	6 118 583	(222 861)	5 895 722

Reconciliation of investment property - 2013

	Opening balance	Disposals	Transfers	Total
Investment property	38 000	(20 000)	6 100 583	6 118 583

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	113 874 440	-	113 874 440	114 153 440	-	114 153 440
Buildings	4 627 581	(1 424 908)	3 202 673	4 627 581	(1 277 938)	3 349 643
Plant and machinery	2 072 742	(901 745)	1 170 997	1 841 250	(1 238 692)	602 558
Furniture and fixtures	2 403 488	(1 065 379)	1 338 109	2 086 431	(1 050 314)	1 036 117
Motor vehicles	1 605 505	(533 771)	1 071 734	967 105	(345 967)	621 138
Computer equipment	2 141 986	(1 227 487)	914 499	2 247 091	(1 555 620)	691 471
Infrastructure	101 333 990	(15 298 439)	86 035 551	87 730 845	(11 295 439)	76 435 406
Landfill site	2 892 562	(965 536)	1 927 026	2 892 562	(756 517)	2 136 045
Work in progress	93 912 420	-	93 912 420	58 367 854	-	58 367 854
Total	**324 864 714**	**(21 417 265)**	**303 447 449**	**274 914 159**	**(17 520 487)**	**257 393 672**

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers	Accounting change in estimate	Depreciation	Total
Land	114 153 440	629 000	-	(908 000)	-	-	-	113 874 440
Buildings	3 349 643	-	-	-	-	-	(146 970)	3 202 673
Plant and machinery	602 558	730 067	(22 004)	-	-	3 433	(143 057)	1 170 997
Furniture and fixtures	1 036 117	577 050	(84 721)	-	-	50 131	(240 468)	1 338 109
Motor vehicles	621 138	638 400	-	-	-	-	(187 804)	1 071 734
Computer equipment	691 471	738 574	(156 029)	-	-	13 762	(373 279)	914 499
Infrastructure	76 435 406	-	-	-	13 603 145	(505 353)	(3 497 647)	86 035 551
Landfill site	2 136 045	-	-	-	-	(14 833)	(194 186)	1 927 026
Work in progress	58 367 854	49 147 711	-	-	(13 603 145)	-	-	93 912 420
	257 393 672	**52 460 802**	**(262 754)**	**(908 000)**	**-**	**(452 860)**	**(4 783 411)**	**303 447 449**

During the Municipality's annual review of property, plant and equipment, the remaining useful lives were reassessed where necessary. The effect of this is a change in accounting estimate in the current period amounting to R (452 860). The effect on future periods is expected to be R (316 164).

Notes to the Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Prior year adjustment	Accounting change in estimate	Depreciation	Total
Land	104 005 940	-	(230 500)	-	10 378 000	-	-	114 153 440
Buildings	3 503 223	-	-	-	-	-	(153 580)	3 349 643
Plant and machinery	494 634	13 241	-	-	-	246 435	(151 752)	602 558
Furniture and fixtures	242 402	719 835	-	-	-	283 962	(210 082)	1 036 117
Motor vehicles	154 439	343 673	-	-	-	243 533	(120 507)	621 138
Computer equipment	221 839	232 464	-	-	-	570 918	(333 750)	691 471
Infrastructure	76 897 214	-	-	9 016 497	(6 100 583)	-	(3 377 722)	76 435 406
Landfill site	2 314 049	-	-	-	-	-	(178 004)	2 136 045
Work in progress	23 096 821	44 287 530	-	(9 016 497)	-	-	-	58 367 854
	210 930 561	**45 596 743**	**(230 500)**	**-**	**4 277 417**	**1 344 848**	**(4 525 397)**	**257 393 672**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	937 589	(433 002)	504 587	758 131	(295 690)	462 441

10. Intangible assets (continued)

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	462 441	179 458	(137 312)	504 587

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	565 657	43 154	(146 370)	462 441

11. Payables from exchange transactions

	2014	2013
Trade payables	2 712 266	3 775 951
Payments received in advance	4 387 767	3 106 810
Other payables	1 512 048	1 007 331
Accrued expenses	3 618 561	5 934 312
Deposits received	-	1 090 422
	12 230 642	**14 914 826**

12. Non-current assets held for sale

Non current assets held for sale to the value of R 908 000 relates to the cost of vacant land held for sale.

The Municipality advertised the sale of the land through a bidding process which was finalised during the 2014 financial year. Letters of award were written to successful bidders in July 2014 subject to entering into sales agreement with the Municipality.

The expected proceeds from the sale amounts to R 2 705 703.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2014	2013
Unspent conditional grants and receipts		
Electrification Grant	-	4 445 896
Municipal Infrastructure Grant	-	3 800 000
EPWP Grant	97 697	7 902
Sport and Recreation Grant	1 122 219	1 122 219
Qedisimo Grant	1 447 676	2 534 884
Library Grant	84 303	198 279
Cyber Cadet Grant	113 738	271 373
Municipal Systems Improvement Grant	-	5 631
Financial Management Grant	33 240	200 355
Small Town Rehabilitation Grant	466 266	676 754
E-Learning Grant	167 230	167 230
Facility Grant	750 000	750 000
LG SETA	154 017	97 263
	4 436 386	**14 277 786**

Notes to the Financial Statements

Figures in Rand	2014	2013

14. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision for rehabilitation of landfill site	4 158 475	274 459	4 432 934
Provision for long service awards	99 226	(127)	99 099
Provision for leave pay	1 499 982	178 330	1 678 312
	5 757 683	**452 662**	**6 210 345**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for rehabilitation of landfill site	3 927 907	230 568	4 158 475
Provision for long service awards	81 687	17 539	99 226
Provision for leave pay	1 136 539	363 443	1 499 982
	5 146 133	**611 550**	**5 757 683**

Non-current liabilities	4 432 934	4 158 475
Current liabilities	1 777 411	1 599 208
	6 210 345	**5 757 683**

15. Revenue

Service charges	11 402 689	7 192 797
Rental of facilities and equipment	838 424	1 238 850
Interest on services rendered	1 789 643	1 301 446
Proceeds from disposal of assets	-	485 870
Other income	1 526 331	313 093
Interest on investment	1 288 493	1 587 603
Property rates	6 911 663	1 667 159
Government grants & subsidies	83 592 320	94 218 389
	107 349 563	**108 005 207**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	11 402 689	7 192 797
Rental of facilities and equipment	838 424	1 238 850
Interest on services rendered	1 789 643	1 301 446
Proceeds from disposal of assets	-	485 870
Other income	1 526 331	313 093
Interest received on investment	1 288 493	1 587 603
	16 845 580	**12 119 659**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	6 911 663	1 667 159
Transfer revenue		
Government grants & subsidies	83 592 320	94 218 389
	90 503 983	**95 885 548**

Notes to the Financial Statements

Figures in Rand	2014	2013

16. Service charges

Sale of electricity	10 668 609	6 591 434
Refuse removal	734 080	601 363
	11 402 689	**7 192 797**

17. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	57 383	64 812
Rental of premises	781 041	1 174 038
	838 424	**1 238 850**

18. Investment revenue

Interest revenue		
Bank	74 143	132 978
Interest on investment	1 214 350	1 454 625
	1 288 493	**1 587 603**

19. Other income

Burial fees	13 074	875
Connection fees	127 284	85 607
Donations received	897 387	5 000
Housing plan	103 188	6 178
Library fees	9 244	4 959
Lindela Thusong Services	15 789	16 500
Refunds	241 164	37 086
Tampering fees	5 880	54 874
Taxi and bus licences	13 538	10 611
Tender monies	99 418	90 771
Wood sales	365	632
	1 526 331	**313 093**

Notes to the Financial Statements

Figures in Rand	2014	2013

20. Government grants and subsidies

Operating grants		
Equitable share	46 726 000	43 237 000
Expanded Public Works Programme Grant	2 740 204	992 098
Financial Management Grant	1 817 114	1 268 869
Municipal Systems Improvement Grant	895 631	835 380
Cybercadet Grant	301 635	127 280
Sport and Recreation Grant	69 656	1 355 965
Library Grant	627 976	341 892
Qedisimo Projects	1 087 208	215 116
Small Town Rehabilitation Grant	-	2 616 366
	54 265 424	50 989 966
Capital grants		
Municipal Infrastructure Grant	24 881 000	13 536 660
Electrification Grant	4 445 896	29 691 763
	29 326 896	43 228 423
	83 592 320	**94 218 389**

Equitable Share

IIn terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

iIn terms of the Division of Revenue Act an amount of R57 099 000 was to be received. The Municipality however only received R46 726 000.

Electrification Grant

Balance unspent at beginning of year	4 445 896	14 576 658
Current-year receipts	-	20 000 000
Conditions met - transferred to revenue	(4 445 896)	(29 691 762)
Other	-	(439 000)
	-	**4 445 896**

Conditions still to be met - remain liabilities (see note 13).

The conditions met - transferred to revenue has been limited to the grant funding available.
The municipality overspent on the grant .
An amount of R 14 061 440 was spent from the municipality's own funds.

Municipal Infrastructure Grant

Balance unspent at beginning of year	3 800 000	6 824 859
Current-year receipts	21 081 000	21 698 000
Conditions met - transferred to revenue	(24 881 000)	(13 536 660)
Other	-	(11 186 199)
	-	**3 800 000**

Conditions still to be met - remain liabilities (see note 13)

The conditions met - transferred to revenue has been limited to the grant funding available.
The municipality overspent on the grant .
An amount of R 9 618 566 was spent from the municipality's own funds.

Notes to the Financial Statements

Figures in Rand	2014	2013

20. Government grants and subsidies (continued)

Expanded Public Works Programme Grant

Balance unspent at beginning of year	7 902	1 000 000
Current-year receipts	2 830 000	-
Conditions met - transferred to revenue	(2 740 205)	(992 098)
	97 697	**7 902**

Conditions still to be met - remain liabilities (see note 13).

Sport and Recreation Grant

Balance unspent at beginning of year	1 122 219	1 282 104
Current-year receipts	-	1 200 000
Conditions met - transferred to revenue	-	(1 359 885)
	1 122 219	**1 122 219**

Conditions still to be met - remain liabilities (see note 13).

20. Government grants and subsidies (continued)

Qedisimo Projects

Balance unspent at beginning of year	2 534 884	2 750 000
Conditions met - transferred to revenue	(1 087 208)	(215 116)
	1 447 676	**2 534 884**

Conditions still to be met - remain liabilities (see note 13).

Library Grant

Balance unspent at beginning of year	198 279	50 171
Current-year receipts	514 000	490 000
Conditions met - transferred to revenue	(627 976)	(341 892)
	84 303	**198 279**

Conditions still to be met - remain liabilities (see note 13).

Cyber Cadet Grant

Balance unspent at beginning of year	271 373	188 653
Current-year receipts	144 000	210 000
Conditions met - transferred to revenue	(301 635)	(127 280)
	113 738	**271 373**

Conditions still to be met - remain liabilities (see note 13).

Municipal Systems Improvement Grant

Balance unspent at beginning of year	5 631	41 012
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(895 631)	(835 381)
	-	**5 631**

Conditions still to be met - remain liabilities (see note 13).

The conditions met - transferred to revenue has been limited to the grant funding available.
The municipality overspent on the grant .
An amount of R 21 584 was spent from the municipality's own funds

Financial Management Grant

Balance unspent at beginning of year	200 355	201 224
Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 817 115)	(1 268 869)
Other	-	(232 000)
	33 240	**200 355**

Conditions still to be met - remain liabilities (see note 13).

Small Town Rehabilitation Grant

Balance unspent at beginning of year	676 754	5 087 509
Conditions met - transferred to revenue	(210 488)	(2 616 366)
Expenditure not previously recognised	-	(1 794 389)

Notes to the Financial Statements

Figures in Rand	2014	2013

20. Government grants and subsidies (continued)

	466 266	**676 754**

Conditions still to be met - remain liabilities (see note 13).

E - Learning Grant

Balance unspent at beginning of year	167 230	167 230

Conditions still to be met - remain liabilities (see note 13).

Facility Grant

Balance unspent at beginning of year	750 000	750 000

Conditions still to be met - remain liabilities (see note 13).

LG SETA

Balance unspent at beginning of year	97 263	-
Current-year receipts	56 754	97 263
	154 017	**97 263**

Conditions still to be met - remain liabilities (see note 13).

Notes to the Financial Statements

Figures in Rand	2014	2013

21. Property rates

Rates received

Property rates	6 911 663	1 667 159

Valuations

Agriculture	-	3 291 000
Business	63 706 000	19 021 000
Place of worship	3 526 000	2 898 000
Residential	102 383 500	14 924 500
State trust land	115 590 000	207 768 100
State owned properties	364 933 000	55 684 000
Vacant land	2 500 000	748 000
Protected area	11 000 000	-
Specialised non-market properties	79 740 000	-
Public service infrastructure	119 000	-
	743 497 500	**304 334 600**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A fixed rate is applied:
Agriculture: 0.029c in the Rand
Business: 0.031c in the Rand
Place of worship: 0.018c in the Rand
Residential: 0.030c in the Rand
State trust land: 0.031c in the Rand
State owned properties: 0.031c in the Rand
Vacant Land: 0.035c in the Rand
Protected area: 0.031c in the Rand
Specialised non-market properties: 0.031c in the Rand
Public service infrastructure: 0.031c in the Rand

The following rebate rates are applied:
100% of market value of Ingonyama Trust Land.
100% of market value of residential properties less than R17 000
100% of market value of worshipping properties
First R50 000 on any residential properties
40% of market value less exemption for owners who are illegible pensioners.

Notes to the Financial Statements

Figures in Rand	2014	2013

22. Employee related costs

Basic	17 205 641	12 546 658
Bonus	1 030 617	665 112
Medical aid - company contributions	731 501	575 179
UIF	113 572	83 355
WCA	-	5 979
SDL	173 808	126 082
Leave pay provision charge	178 331	(3 511 776)
Pension contributions	2 012 955	1 360 537
Travel, motor car, accommodation, subsistence and other allowances	2 119 113	1 581 191
Overtime payments	151 093	205 798
Long-service awards	(128)	17 539
Housing benefits and allowances	176 648	173 327
Group life insurance	154 481	136 411
Industrial council	6 344	4 909
	24 053 976	**13 970 301**

The Municipality does not have an obligation to pay post employment benefits to employees.

Remuneration of Municipal Manager

Annual Remuneration	533 407	558 192
Travel Allowance	119 675	298 327
Pension Adjustment	66 643	-
Housing Allowance	21 289	-
Leave Pay	-	166 495
Unpaid Leave	-	(21 255)
Housing Adjustment	70 000	-
	811 014	**1 001 759**

Remuneration of Chief Finance Officer

Annual Remuneration	538 018	164 473
Travel Allowance	215 082	70 489
Acting Allowance	30 121	22 290
Unpaid Leave	-	(28 195)
	783 221	**229 057**

Remuneration of Director of Corporate Services

Annual Remuneration	527 880	459 480
Travel Allowance	68 070	87 104
Performance Bonuses	84 500	45 139
Unpaid Leave	(27 112)	-
Housing Allowance	102 000	82 705
Leave Pay	144 595	-
	899 933	**674 428**

Remuneration of Director of Community Services

Annual Remuneration	538 018	378 424
Travel Allowance	215 082	193 542
	753 100	**571 966**

Notes to the Financial Statements

Figures in Rand	2014	2013

22. Employee related costs (continued)

Remuneration of Director of Technical Services

Annual Remuneration	453 867	132 307
Travel Allowance	158 162	56 391
Performance Bonuses	149 134	18 074
Housing Allowance	20 855	-
Unpaid Leave	-	(11 278)
	782 018	**195 494**

23. Remuneration of councillors

Executive Mayor	585 441	299 464
Deputy Executive Mayor	307 799	273 252
Speaker	307 799	306 364
MPAC Chairperson	272 382	232 716
Ordinary Councillors	4 352 962	3 579 298
Skills levy	34 669	5 986
Executive Committee	870 270	748 020
	6 731 322	**5 445 100**

24. Bulk purchases

Electricity	8 073 041	8 030 526

25. Contracted services

Information Technology Services	1 836 663	873 139
Security Services	2 715 772	1 967 358
	4 552 435	**2 840 497**

26. Debt impairment

Contributions to doubtful debt provision	2 341 372	2 283 146

27. Depreciation and amortisation

Property, plant and equipment	4 783 411	4 386 192
Investment property	222 861	-
Intangible assets	137 312	146 370
	5 143 584	**4 532 562**

Notes to the Financial Statements

Figures in Rand	2014	2013

28. General expenses

Accommodation	794 736	742 794
Advertising and publicity	2 471 929	1 331 341
Auditors remuneration	1 203 469	1 303 878
Bank charges	66 973	51 124
Bursaries	26 410	139 540
Cleaning	206 139	503 903
Commission paid	2 718 274	-
Community development	2 205 885	2 360 378
Community safety	1 822 561	1 688 160
Consulting and professional fees	5 760 078	4 700 772
Consumables	59 671	1 079 555
Departmental charges	571 348	653 136
Entertainment	70 013	150 291
Fines and penalties	37 135	345 996
Free basic energy	563 270	439 054
Fuel and oil	804 293	556 223
Hire of plant and equipment	480 305	24 500
Housing	-	3 240
Indigent burial	171 289	-
Insurance	207 998	181 085
IT expenses	94 767	-
Landfill site provision adjustment	274 459	230 568
Lease rentals on operating lease	1 541 877	1 475 148
Library and information services	268 390	336 312
Local economic development	3 731 907	185 991
Postage and courier	148	1 178
Printing and stationery	439 720	263 256
Sewerage and waste disposal	20 733	121 954
Social services	110 063	242 363
Software and licenses	228 784	235 288
Spatial planning	24 189	24 116
Sport and recreation	1 410 482	624 551
Staff welfare	187 965	-
Subscriptions and membership fees	401 080	423 250
Telephone and fax	784 351	752 866
Training	1 088 244	1 370 517
Uniforms	68 406	62 730
VAT recovered	-	2 646 031
Water	388 221	36 643
Youth development	884 634	221 140
Other expenses	-	(175 088)
	32 190 196	**25 333 784**

29. Loss on disposal of assets

Loss on disposal of movable assets	262 754	-
		-
	262 754	**-**

30. Grant expenditure

Other subsidies		
Financial Management Grant	2 022 010	287 428

Notes to the Financial Statements

Figures in Rand	2014	2013

31. Auditors' remuneration

Fees	1 203 469	1 303 878

32. Cash generated from operations

Surplus	15 944 687	42 531 039
Adjustments for:		
Depreciation and amortisation	5 143 584	4 671 771
Profit on sale of assets and liabilities	262 754	-
Interest income	(3 078 136)	(2 889 049)
Debt impairment	2 341 372	2 283 146
Movements in provisions	452 662	611 550
Other non-cash items	2 246 381	(4 270 933)
Changes in working capital:		
Inventories	(91 423)	-
Receivables from exchange transactions	(365 526)	807
Consumer debtors	(6 350 176)	(1 468 772)
Payables from exchange transactions	(2 684 190)	4 587 880
VAT	1 632 207	(619 397)
Unspent conditional grants and receipts	(9 841 400)	1 190 056
	5 612 796	**46 628 098**

33. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure assets	19 465 102	5 097 824

Approved but not yet contracted for		
• Plant and equipment	2 250 000	-
• Infrastructure assets	-	35 983 176
	2 250 000	**35 983 176**

This committed expenditure relates to property,plant and equipment and will be financed by the municipal infrastructure grant and existing cash resources.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	778 770	778 770
- in second to fifth year inclusive	676 367	1 455 137
	1 455 137	**2 233 907**

Operating lease payments represent rentals payable by the municipality for vehicles and computer equipment. Leases are negotiated for an average term of three years for the rental of vehicles and computer equipment with contingent rentals payable. .

Notes to the Financial Statements

Figures in Rand	2014	2013

34. Contingencies

The municipality terminated the award of the tender development of a Shopping Centre.The reason for termination was the non-compliance with the provisions of section 14 (2) of the MFMA.
The termination was based on our legal advice. There has been no claim yet except letters from the aggrieved party.
The potential claim amount is R2 400 000.00

Civil proceedings have been instituted against the municipality for the loss of the electrical equipment at a resident's house, which she believes was caused by the malfunction of the electricity supply to her house.
The matter is defended by the municipality. It is believed that there could other potential claims if this one is settled. The municipality was advised to defend the matter.
The amount of the potential claim is R10289.95

The municipality allegedly removed fencing which served as markings for plumbing and building material of ERF 172. The matter has been referred to legal advisor, awaiting report.
The amount of the potential claim is R56 000

Legal action is being taken against the Municipality for the alleged unfair dismissal of an employee. The employee was dismissed on the grounds of misconduct as he was found guilty on all eight counts.
The amount of the potential claim is R40 500

Notes to the Financial Statements

Figures in Rand	2014	2013

35. Prior period errors

VAT
Through a detailed review and reconciliation of the VAT records, the Municipality noted misclassifications and duplications that occurred whilst finalising the prior year annual financial statements. The necessary correcting journal entries amounting to R 3 511 708 was processed to Accumulated Surplus and VAT disclosed under Trade and Other Payables.

Grant expenditure to the value of R 4 543 951 was reallocated to the correct financial period. This has been corrected by increasing WIP recorded under Property, Plant and Equipment and increasing the VAT and accruals under Trade and Other Payables

Trade and Other Payables
Grant expenditure to the value of R 4 543 951 was reallocated to the correct financial period. This has been corrected by increasing WIP recorded under Property, Plant and Equipment and increasing the VAT and accruals under Trade and Other Payables

Property, plant and equipment
Investment property to the value of R6 100 583 was incorrectly recorded as community assets under property, plant and equipment. This has been correctly allocated to Investment Property and removed from Property Plant and Equipment.

Grant expenditure to the value of R 4 543 951 was reallocated to the correct financial period. This has been corrected by increasing WIP recorded under Property, Plant and Equipment and increasing the VAT and accruals under Trade and Other Payables.

Investment property
Investment property to the value of R6 100 583 was incorrectly recorded as community assets under property, plant and equipment. This has been correctly allocated to Investment Property and removed from Property, Plant and Equipment.

Unspent grants:
1. Small Town Rehabilitation:
The conditions met in the prior period relating to this grant was not transferred to revenue. This has been corrected by adjusting the Unspent Grant balance and Accumulated Surplus, with an amount of R 1 794 389.

2. MIG, FMG and INEP:
An error relating to an amount not approved for rollover by Treasury, whereby Treasury withheld a portion of equitable share in respect of amounts not approved for rollover. This has been corrected by adjusting the Unspent Grant balance and Accumulated Surplus with an amount of R 11 857 199.

3.Correction of a prior period error for the recognition of grant revenue due to the reallocation of grant expenditure which had been recorded in the incorrect financial periods. This has been corrected by adjusting the Unspent Grant balance and Accumulated Surplus with an amount of R 4 878 523.

The correction of error(s) results in adjustments as follows:

Property, Plant and Equipment	-	(1 556 632)
Trade and Other Payables	-	(8 055 660)
Investment Property	-	6 100 583
Unspent Conditional Grants	-	18 530 116
Opening Accumulated Surplus	-	(15 018 407)

The municipality recognised vacant plots of land in 2013 that was not accounted for in prior years. As a result land with a value of R10 378 000 was recognised in 2013.

36. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

36. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

37. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

38. Events after the reporting date

There were no material events after the reporting date

39. Unauthorised expenditure

Unauthorised expenditure	8 155 151	-

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	169 102	7 803

Fruitless and wasteful expenditure is as a result of penalties/late payments of interest charged by SARS, Telkom and Eskom.

Notes to the Financial Statements

Figures in Rand	2014	2013

41. Irregular expenditure

Opening balance	-	1 665 893
Add: Irregular Expenditure - current year	30 766 117	35 285 942
Add: Fruitless and wasteful expenditure	169 102	7 803
Less: Amounts condoned	-	(36 959 638)
	30 935 219	**-**

Analysis of current year irregular expenditure

Amounts condoned	-	36 959 638
Amounts not condoned	30 766 117	-
	30 766 117	**36 959 638**

Further details of the irregular expenditure can be found in the irregular expenditure register maintained at the Municipality

Awards to close family members of persons in service of the state

Dumisani Langa Trading (Pty) Ltd - Mrs FS Langa	532 000	-

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	400 000	400 000
Amount paid - current year	(400 000)	(400 000)
	-	**-**

Audit fees

Current year subscription / fee	1 203 469	1 303 878
Amount paid - current year	(1 203 469)	(1 303 878)
	-	**-**

PAYE and UIF

Current year subscription / fee	3 852 170	2 793 900
Amount paid - current year	(3 415 129)	(2 793 900)
	437 041	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	4 824 351	2 815 108
Amount paid - current year	(4 357 540)	(2 815 108)
	466 811	**-**

VAT

VAT receivable	1 225 774	2 857 981

Figures in Rand	2014	2013

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviation from Municipal Supply Chain Management Regulations amounted to R 2 212 073 (2013:R 4 838 355) which are made up as follows:

	2014	2013
Section 36	2 212 074	4 838 355

44. Electricity Distribution Losses

	2014	2013
Electricity distribution loss in Rands	1 522 407	1 439 092

The electricity losses in units for 2014 were 355 910 (kwh). The estimated cost per unit is 43 cents.

Administrative losses
Administrative losses refer to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered.

Technical losses
Technical losses within the municipality are made up of standard line losses, unmetered own consumption, street lights and traffic lights. Standard line losses account for approximately 2% of the energy delivered to the municipality. Street lighting including stadium lights contributes to approximately 9% of electricity distribution losses. The municipality will be budgeting to retrofit street lights with energy efficient bulkheads, as well as to retrofit lighting within municipality buildings.

Non-technical losses
Non-technical losses refers to unrecorded electricity delivery, illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded but the municipality is busy rectifying this as there is a project underway to install new meters and upgrading of electricity infrastructure.